

COUNTY OF SAN LUIS OBISPO
TREASURY OVERSIGHT COMMITTEE EXAMINATION
INDEPENDENT ACCOUNTANT'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2016

**COUNTY OF SAN LUIS OBISPO
TREASURY OVERSIGHT COMMITTEE EXAMINATION**

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Certified Public Accountants

BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT

Members of the Treasury Oversight Committee
County of San Luis Obispo
San Luis Obispo, California

We have examined the County of San Luis Obispo, California, (the County) management's assertion that the County complied with the investment compliance requirements presented in California Government Code of Regulations Chapter 4, Article 1 Sections 53600, 53601, and 53607; Chapter 4, Article 2 Sections 53635 and 53646; and Chapter 5 Article 6 Sections 27130 through 27137 as set forth in the accompanying Schedule I for the fiscal year ended June 30, 2016. Management is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements.

In our opinion, management's assertion that the County complied with the aforementioned investment compliance requirements for the fiscal year ended June 30, 2016, is fairly stated, in all material respects.

This report is intended solely for the information and use of the Board of Supervisors (the Board), Treasury management, and the County Treasury Oversight Committee (the Oversight Committee) and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
August 10, 2016

**COUNTY OF SAN LUIS OBISPO
NOTES TO THE TREASURY OVERSIGHT AGREED UPON PROCEDURES
JUNE 30, 2016**

NOTE 1 – BACKGROUND AND GENERAL

In 1995, the California legislature passed provisions requiring each county and city to establish an oversight committee from 3 to 11 members representing various organizations (the pool of organizations was also specified in the legislation). The purpose of this committee was to oversee the policies that guide the investment of public funds. The committee was not to impinge on the day-to-day operations of the County Treasurer, but rather to review and monitor the Treasurer's investment policy and reporting.

Certain statutory changes were enacted by the California legislature effective January 1, 2005. Government Code §27131 now makes the Treasury Oversight Committee (the Oversight Committee) optional, although the Legislature encourages the continuation of the Oversight Committee. The County of San Luis Obispo (the County) elected to continue services from the Treasury Oversight Committee.

Other statutory changes include the removal of the mandatory filing of the County's annual investment policy and the County's quarterly investment report with the Oversight Committee. Instead, the County's annual investment policy should be submitted to the County Board of Supervisors (the Board) and the quarterly investment reports should be submitted to the County's Administrative Office, Auditor-Controller, or Board of Supervisors.

NOTE 2 – SCHEDULE I

Management asserts compliance with the following investment compliance requirements as presented in the California Government Code of Regulations:

Chapter 4, Article 1

Investment of Surplus Funds

1. 53600.5 – The County Treasurer's objectives are to safeguard the principal of funds, meet the depositors' liquidity needs, and achieve a return on the funds under the County's control.
2. 53601 – The County Treasurer's purchasing of any authorized securities shall require delivery of all the securities to the County Treasury by book entry, physical delivery, or by third-party custodial agreement.

The County Treasurer shall invest surplus money in those authorized investments with specified maximum maturities and percentages of surplus money. No investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement, which at the time of the investment has a term remaining to maturity in excess of five years.

3. 53601.6(a) – The County Treasurer shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.
4. 53601.6(b) – The County Treasurer shall not invest any funds in any security that could result in zero interest accrual if held to maturity.
5. 53607 – The Board may delegate and revoke the County Treasurer's authority to invest and reinvest the County funds, and the County Treasurer shall assume full responsibility for those transactions.

Chapter 4, Article 2

Deposit of Funds

1. 53635.2 – All money belonging to a local agency shall be deposited for safekeeping with a federally insured financial institution or may be invested in authorized investments.
2. 53646(a)(1) – The County Treasurer may annually submit to the County Board and the County Treasury Oversight Committee a written statement of investment policy.
3. 53646(b)(1) – The County Treasurer may submit a quarterly investment report to the Oversight Committee within 30 days following the end of the quarter. The report shall include the following information: type of investment, issuer name, maturity date, par and amount invested, and money within the treasury; weighted average maturity; funds, investments, or programs, including loans, that are under the management of contracted parties; and market value and source of valuation as of the date of the report.
4. 53646(b)(2) – The quarterly investment report shall state compliance of the portfolio to the statement of investment policy.
5. 53646(b)(3) – The quarterly investment report shall also include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months.

NOTE 3 – COMMITTEE MEMBERS

<u>Members</u>	<u>Organization Representing</u>
Sheldon Smith	Superintendent of School Designee
Jim Erb	County Auditor-Controller-Treasury-Tax Collector-Public Administrator
Dan Buckshi	County Board of Supervisors
Ryan Pinkerton	School Districts and Community College District
Clark Channing	Public Member

NOTE 4 – CHAPTER 5, ARTICLE 6

County Treasury Oversight Committee

1. 27130 – The Legislature finds and declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment in those funds; by pooling deposits from local agencies and other participants, the county treasuries operate in the public interest by consolidating banking and investment activities, reducing duplication, achieving economies of scale, and carrying out coherent and consolidated investment strategies; and the creation of a county treasury oversight committee will promote public interest by involving depositors in the management of their funds and by enhancing the security and investment return on their funds by providing a more stable and predictable balance for investments by establishing criteria for withdrawal of funds.
2. 27131 – The Board may establish an Oversight Committee that consists of from three to eleven members.

NOTE 4 – CHAPTER 5, ARTICLE 6 (Continued)

County Treasury Oversight Committee (Continued)

3. 27132 – The Oversight Committee shall consist of members appointed from the following: county treasurer, county auditor, auditor-controller or finance director; representative appointed by the county board of supervisors; county superintendent of schools or designee; representative selected by a majority of the presiding officers of the governing bodies of the school or community college districts; a representative selected by a majority of the presiding officers of the legislative bodies of the special districts; up to five other members of the public who either have expertise or academic background in finance or are economically diverse and bipartisan in political registration.
4. 27132.1 – The Oversight Committee members may not be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer or to the campaign of a candidate to be a member of a legislative body of any of local agency that has deposited funds in the County Treasury in the previous three years or during the period that the employee is a member of the Oversight Committee.
5. 27132.2 – The Oversight Committee members may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Oversight Committee.
6. 27132.3 – The Oversight Committee members may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms during the period that the person is a member of the committee or for three years after leaving the Oversight Committee.
7. 27132.4 – The Oversight Committee meetings shall be open to the public and be subject to the Ralph M. Brown Act.
8. 27133 – The County Treasurer shall annually prepare an investment policy that will be reviewed and monitored by the Oversight Committee, including the following: authorized investments; maximum security term; brokers and dealers selection; limits on the receipt of gifts; investment report; cost calculation and apportionment policy; deposit terms and conditions; and funds withdrawal criteria.
9. 27134 – The Oversight Committee shall require an annual audit to be conducted to determine the County Treasury's compliance with the investment compliance requirements presented in the California Government Code of Regulations, Article 6, Section 27130 through 27137, and set forth in this schedule.
10. 27135 – The County shall absorb costs in complying with the investment compliance requirements.
11. 27136 – The County Treasurer shall evaluate each proposed withdrawal of funds for the purpose of investing or depositing those funds outside the County Treasury pool in accordance with the withdrawal policy.
12. 27137 – The Oversight Committee shall not direct individual investment decisions; select individual investment advisors, brokers, or dealers; or impinge on the day-to-day operations of the County Treasury.